

**REPORT OF THE AUDIT OF THE
CLARK COUNTY
SHERIFF'S SETTLEMENT - 2004 TAXES**

April 29, 2005



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE 502.573.0050
FACSIMILE 502.573.0067**

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
CLARK COUNTY
SHERIFF'S SETTLEMENT - 2004 TAXES

April 29, 2005

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2004 Taxes for the Clark County Sheriff as of April 29, 2005. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$13,748,740 for the districts for 2004 taxes, retaining commissions of \$417,300 to operate the Sheriff's office. The Sheriff distributed taxes of \$13,313,171 to the districts for 2004 taxes. Refunds of \$13,702 are due to the Sheriff from the taxing districts.

Report Comments:

- The Sheriff Should Distribute Tax Collections By The Tenth Of Each Month
- Tax Collections Should Be Deposited Intact On A Daily Basis
- The Sheriff's Tax Settlement Should Be Published
- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly
- The Sheriff Should Improve Record-Keeping Procedures
- The Sheriff's Official Receipt Should Be Prepared Prior To The Collection Of Taxes
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
SHERIFF'S SETTLEMENT - 2004 TAXES	3
NOTES TO FINANCIAL STATEMENT	5
COMMENTS AND RECOMMENDATIONS	9
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	15



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable John W. Myers, Clark County Judge/Executive

Honorable Ray E. Caudill, Clark County Sheriff

Members of the Clark County Fiscal Court

Independent Auditor's Report

We have audited the Clark County Sheriff's Settlement - 2004 Taxes as of April 29, 2005. This tax settlement is the responsibility of the Clark County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Clark County Sheriff's taxes charged, credited, and paid as of April 29, 2005, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated August 10, 2005 on our consideration of the Clark County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable John W. Myers, Clark County Judge/Executive
Honorable Ray E. Caudill, Clark County Sheriff
Members of the Clark County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Sheriff Should Distribute Tax Collections By The Tenth Of Each Month
- Tax Collections Should Be Deposited Intact On A Daily Basis
- The Sheriff's Tax Settlement Should Be Published
- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly
- The Sheriff Should Improve Record-Keeping Procedures
- The Sheriff's Official Receipt Should Be Prepared Prior To The Collection Of Taxes
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
August 10, 2005

CLARK COUNTY
RAY E. CAUDILL, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2004 TAXES

April 29, 2005

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 1,198,502	\$ 1,502,123	\$ 6,344,073	\$ 2,093,410
Tangible Personal Property	165,837	173,102	664,927	675,531
Intangible Personal Property				216,318
Increases Through Exonerations	930	983	3,807	2,958
Franchise Corporation	156,197	173,621	693,688	
Additional Billings	397	22,170	2,053	687
Bank Franchises	106,007			
Penalties	7,369	9,207	38,830	13,167
Adjusted to Sheriff's Receipt	(207)	(285)	(1,166)	(693)
Gross Chargeable to Sheriff	<u>\$ 1,635,032</u>	<u>\$ 1,880,921</u>	<u>\$ 7,746,212</u>	<u>\$ 3,001,378</u>
<u>Credits</u>				
Exonerations	\$ 5,231	\$ 6,115	\$ 24,986	\$ 9,749
Discounts	20,180	24,397	102,023	45,308
Delinquents:				
Real Estate	14,862	18,627	78,671	25,959
Tangible Personal Property	1,215	1,268	4,870	3,778
Intangible Personal Property				47
Uncollected Franchise	18,871	21,656	86,990	
Total Credits	<u>\$ 60,359</u>	<u>\$ 72,063</u>	<u>\$ 297,540</u>	<u>\$ 84,841</u>
Taxes Collected	\$ 1,574,673	\$ 1,808,858	\$ 7,448,672	\$ 2,916,537
Less: Commissions *	67,211	76,876	148,973	124,240
Taxes Due	\$ 1,507,462	\$ 1,731,982	\$ 7,299,699	\$ 2,792,297
Taxes Paid	1,504,710	1,729,734	7,288,352	2,790,375
Refunds (Current and Prior Year)	4,210	4,632	18,780	4,349
Refunds Due Sheriff		**		
as of Completion of Fieldwork	<u>\$ (1,458)</u>	<u>\$ (2,384)</u>	<u>\$ (7,433)</u>	<u>\$ (2,427)</u>

* & ** See next page.

The accompanying notes are an integral part of this financial statement.

CLARK COUNTY
RAY E. CAUDILL, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2004 TAXES
April 29, 2005
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	6,290,068
2% on	\$	7,448,672

** Special Taxing Districts:

Library District	\$	(1,239)
Health District		(724)
Extension District		<u>(421)</u>

Refunds Due Sheriff	\$	<u><u>(2,384)</u></u>
---------------------	----	-----------------------

CLARK COUNTY
NOTES TO FINANCIAL STATEMENT

April 29, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue that are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue that are recognized when there is proper authorization. Taxes paid are uses of revenue that are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of April 29, 2005, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the Sheriff's agent in the Sheriff's name.

CLARK COUNTY
NOTES TO FINANCIAL STATEMENT
April 29, 2005
(Continued)

Note 4. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2004. Property taxes were billed to finance governmental services for the year ended June 30, 2005. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 1, 2004 through April 29, 2005.

Note 5. Interest Income

The Clark County Sheriff earned \$14,438 as interest income on 2004 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office. The Sheriff however, did not distribute all interest earnings to the school district in a timely manner as required by KRS 143.310 (3) (b).

Note 6. Sheriff's 10% Add-On Fee

The Clark County Sheriff collected \$59,711 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office. As of August 10, 2005, the Sheriff owes \$13,055 in 10% add-on fees to his fee account.

Note 7. Advertising Costs And Fees

The Clark County Sheriff collected \$864 of advertising costs and \$4,490 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The advertising fees will be used to operate the Sheriff's office. The Sheriff distributed \$853 of the advertising costs to his fee account. As of August 10, 2005, the Sheriff owes \$11 in advertising costs to the county.

Note 8. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After three years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For 2004 taxes, the Sheriff had \$3,392 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

COMMENTS AND RECOMMENDATIONS

CLARK COUNTY
RAY E. CAUDILL, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

As of April 29, 2005

STATE LAWS AND REGULATIONS:

The Sheriff Should Distribute Tax Collections By The Tenth Of Each Month

The Sheriff reported franchise and property tax collections on seven separate reports for 2004 collections. Our review of these reports indicated the Sheriff did not report and distribute money collected in a timely manner for two of the seven reporting periods. Additionally, there were no reports prepared for franchise tax collections during the months of May 2004 through September 2004. KRS 134.300 requires the Sheriff to report and distribute money collected during the preceding month by the tenth of each month. We recommend the Sheriff report and distribute all taxes in a timely manner as required by KRS 134.300.

Sheriff's Response: Attempting to distribute taxes by the 10th of each month as required.

Tax Collections Should Be Deposited Intact On A Daily Basis

Our test procedures indicate the Sheriff deposited the payments for 12 franchise tax bills on October 6, 2004. The dates of these bills range from April 29, 2004 to September 10, 2004. The taxes appear to have been collected during the months of June through October 2004. We recommend the Sheriff adhere to the requirements of Technical Audit Bulletin 93-002 by depositing all public funds received into an official account on a daily basis.

Sheriff's Response: All tax receipts are now being deposited daily.

The Sheriff's Tax Settlement Should Be Published

The Sheriff's Settlement of 2004 Taxes was not published. KRS 134.310(2) requires the settlement to be published pursuant to KRS Chapter 424. We recommend the Sheriff publish his settlement in the future as required.

Sheriff's Response: Future tax settlements will be published as required.

The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

KRS 134.140(3)(b) requires the Sheriff to pay monthly "that part of his investment earnings for the month which is attributable to the investment of school taxes." The Sheriff should distribute the investment earnings at the same time as the monthly tax collections. KRS 134.140(3)(d) requires the remaining monthly interest to be transferred to the Sheriff's fee account. During 2004 tax collections, the Sheriff earned interest of \$14,438 on his tax account. However, the Sheriff did not pay the interest to the Board of Education or the fee account on a monthly basis. We recommend the Sheriff comply with KRS 134.140(3)(b) and (d) by paying the amount of interest due to the school and fee account on a monthly basis.

Sheriff's Response: Future investments earnings will be distributed in a timely manner.

CLARK COUNTY
RAY E. CAUDILL, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
As of April 29, 2005
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

The Sheriff Should Improve Record-Keeping Procedures

Several areas were noted where the Sheriff's record-keeping procedures did not properly reflect monthly collections and the subsequent distributions. KRS 43.075(3) requires "accurate recording of receipts by source and expenditures by payee . . ." We recommend these conditions be corrected in the future.

- a) Penalties during the month of January 2005 were not properly calculated on the Sheriff's monthly tax reports. Monthly reports as presented reflected 10% penalty amounts collected for the various taxing districts. January 2005 was the month for which 5% penalty was collected. The amounts subsequently distributed for January 2005 to the taxing districts (except for the state) did not include penalties. The Sheriff's monthly reports have been adjusted to reflect 5% penalty for the month of January 2005. Upon preparation of the Sheriff's settlement for 2004 taxes, the overstated penalty amounts were included as "due to" the taxing districts. The overstatement of penalties collected for the month of January is the primary cause for the refunds due to the Sheriff indicated on the audited financial statement.
- b) Refunds paid to taxpayers reflected on the Sheriff's monthly tax reports did not always agree with refund amounts indicated on reports maintained to account for refunds only. The Sheriff's monthly reports have been adjusted to reflect the amounts in the monthly refund reports.
- c) Amounts due to taxing districts as calculated on the Sheriff's monthly reports did not always agree with the subsequent payment. The Sheriff's monthly reports should agree with amounts subsequently paid to the districts.
- d) Payments to the Sheriff's fee account should be clearly identified as to the source of the payment. Payments from the tax account are primarily made up of commissions, interest earned, 10% add-on fees, and advertising fees and costs. Payments for each category should be clearly identified and accounted for separately.
- e) The Sheriff should maintain a list of returned checks. Each check on the list should be clearly identified, with date received, deposited, and re-deposited. We recommend the Sheriff prepare a separate deposit for each NSF check upon collection in order to separate these checks from normal daily collections.
- f) The Sheriff did not account for uncollected franchise taxes on his 2004 Tax Settlement. Our testing procedures indicate the Sheriff received a total of \$1,023,506 in franchise bills during the collection of 2004 taxes. Of this amount, \$127,517 was uncollected as of the end of April 2005. We recommend the Sheriff maintain a list of all franchise bills received from the County Clerk and that this list reflect the date received, the date mailed to the taxpayer, and the date the payment was received. Uncollected franchise bills should be turned over to the County Clerk as delinquent taxes.

Sheriff's Response: We are working on improving all areas mentioned.

CLARK COUNTY
RAY E. CAUDILL, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
As of April 29, 2005
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

The Sheriff's Official Receipt Should Be Prepared Prior To The Collection Of Taxes

The Sheriff's official receipt for 2004 taxes was signed on November 22, 2004. Tax collections began the first week of October 2004. KRS 133.220 requires the official receipt to be obtained by the County Clerk before tax collections begin. We recommend, in the future, the Sheriff ensure that the County Clerk has received a signed official receipt before tax collections begin.

Sheriff's Response: County Clerk will receive official receipt prior to tax collection.

INTERNAL CONTROL - MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He should document this by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The Sheriff should compare the monthly tax reports to receipts and disbursements ledgers for accuracy. The Sheriff should also compare amounts due indicated on the monthly reports to the cancelled checks. Any differences should be reconciled. The Sheriff should document this by initialing the monthly tax reports.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff should document this by initialing the bank reconciliation and the balance in the checkbook.
- The Sheriff should require two signatures on all checks, with one being the Sheriff's.

Sheriff's Response: Several recommended changes have been implemented.

PRIOR YEAR:

The Sheriff Should Distribute Tax Collections By The Tenth Of Each Month

This comment has not been corrected and is repeated in the current year report.

The Sheriff's Tax Settlement Should Be Published

This comment has not been corrected and is repeated in the current year report.

CLARK COUNTY
RAY E. CAUDILL, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
As of April 29, 2005
(Continued)

PRIOR YEAR: (Continued)

The Sheriff Should Implement Adequate Daily Cash Check-out Procedures

This comment has been corrected.

Fidelity Bonds Should Adequately Protect County From Potential Loss

This comment has been corrected.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John W. Myers, Clark County Judge/Executive
Honorable Ray E. Caudill, Clark County Sheriff
Members of the Clark County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Clark County Sheriff's Settlement - 2004 Taxes as of April 29, 2005, and have issued our report thereon dated August 10, 2005. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Clark County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Clark County Sheriff's Settlement - 2004 Taxes as of April 29, 2005 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Distribute Tax Collections By The Tenth Of Each Month
- Tax Collections Should Be Deposited Intact On A Daily Basis
- The Sheriff's Tax Settlement Should Be Published
- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly
- The Sheriff Should Improve Record-Keeping Procedures
- The Sheriff's Official Receipt Should Be Prepared Prior To The Collection Of Taxes

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development, and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
August 10, 2005

